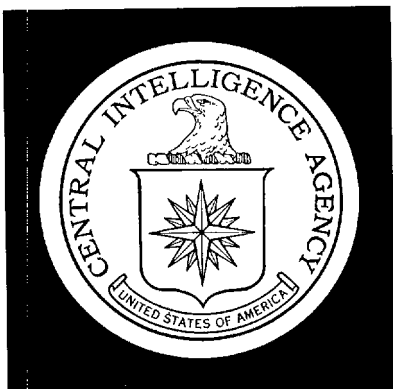


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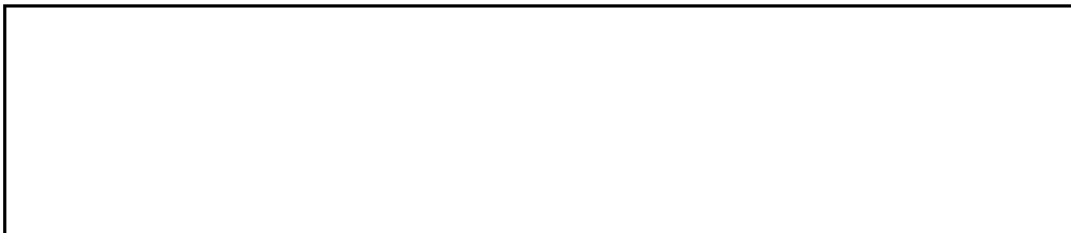
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USSR-US: Mack Trucks is seeking to renegotiate contract terms with the Soviets regarding the Kama Truck Plant.

This decision comes on the heels of a recent discussion with US Government officials in which the US firm indicated it was prepared to break off negotiations with the Soviets. Mack was concerned about the unrealistic completion date demanded by the Soviets and by the USSR's insistence that the Soviets have the final say on equipment suppliers. Mack argues that US suppliers are reluctant to prepare detailed engineering designs unless practically assured of a contract.

The USSR will not be able to meet the project's planned completion date of 1974 because of protracted difficulties in obtaining Western assistance. The Soviets will have to soften their negotiating stance with Mack to minimize further delays because they are unlikely to renegotiate with any of the Free World automotive firms previously contacted. Moreover, the USSR would be hard pressed to assume the formidable management and engineering services that Mack has agreed to provide. The Soviets consider this plant crucially important to their plans for modernizing their freight transportation system.

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PAKISTAN: President Yahya Khan is moving, but not decisively, toward the establishment of a civilian government.

Yahya hopes to rally approval for his policies around the moderate Pakistan Muslim League (PML) which has most of its support in West Pakistan. The party--which did badly in elections last December--has long been split into three rival factions, but two of them, probably because of government pressure, have now agreed to merge. The leader of the third and most important group may well see no choice but to go along.

Yahya has said publicly that it would be a "good thing" to ban regional parties. He evidently plans to support the PML in eventual elections for those East Pakistani seats in the National Assembly declared vacated by the government and to encourage those East Pakistanis who will retain their seats to join the party. This could greatly increase the strength of the PML and also make it Pakistan's only nonregional party.

Leaders of the Pakistan People's Party--the largest in West Pakistan--fear they may be kept out of power, at least on the national level. The leader of another West Pakistani party--prominent in the two provinces on the country's western border--has also been critical of Yahya and claims that his current plans will not only lose East Pakistan but eventually lead to the breakup of West Pakistan as well.

In East Pakistan, Yahya has appointed a Bengali, A. M. Malik, as head of the relief and rehabilitation effort with cabinet rank. Yahya may plan to go to East Pakistan--the first time since fighting broke out--in the near future to "sort things out."

There is no indication, however, that such moves will help win significant political support in the east, and if rumors that East Pakistani leader Mujibur Rahman will soon be tried and executed prove true, government efforts to establish a civilian government could be further set back.

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URUGUAY: A serious clash between the executive and the legislature may be in the offing.

The opposition Blanco Party this week engineered a 77-36 congressional vote lifting the President's emergency security powers--in order, the Blancos claimed, "to ensure fair and democratic presidential elections in November." President Pacheco immediately redecreed the emergency measures, contending that his constitutional obligation to preserve order in the face of the terrorist threat overrides congressional authority. In a pointed reminder to the legislature that he is confident of armed forces support, the President began a tour of military bases as the cabinet announced his decision.

In a similar executive-legislative confrontation in 1969, Congress backed down. The legislature may be more reluctant to forfeit its prerogatives in this instance, however. The Blancos apparently have now settled their internal differences on this issue, and a majority of the President's Colorado Party joined with them in the vote. With one faction of the Colorado Party promoting Pacheco's reelection, many other Colorados will be tempted to join with the opposition and force the issue, in order to substantiate charges in the campaign now getting under way that Pacheco is an arbitrary president who is endangering Uruguay's democratic traditions.

[Yesterday, the Blanco Party directorate initiated proceedings for another meeting of the Congress which will consider several possible reactions, including impeachment of the President. Such an extreme measure, however, would be unlikely to attract the Colorado Party support necessary for the two-thirds legislative majority required for impeachment.]

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PERU: The Velasco regime has failed to obtain a rescheduling of foreign-debt payments due next year, but it may soon receive new development loans.

West European and Japanese creditors have taken the position that refinancing is not necessary because of Peru's substantial foreign-exchange reserves. The creditors are willing, however, to extend new loans in order to expand their exports. Peru and several of its major creditors have agreed to establish a consultative group under the World Bank's leadership to identify projects and coordinate financing.

In a related development, three British firms are negotiating to provide about \$100 million for development of the Cerro Verde copper deposit, formerly held by Anaconda, and for the construction of a copper refinery. The British Government is considering guaranties for the loans. In addition, the Japanese recently signed construction and financing contracts for a fertilizer plant, a microwave system, and an electric transmission line. Peru began to press the Japanese to finance the local costs of these projects following rejection of its request for debt refinancing.

Despite the new development loans, Peru's deteriorating foreign-payments position may ultimately force the creditors to reschedule debt payments.

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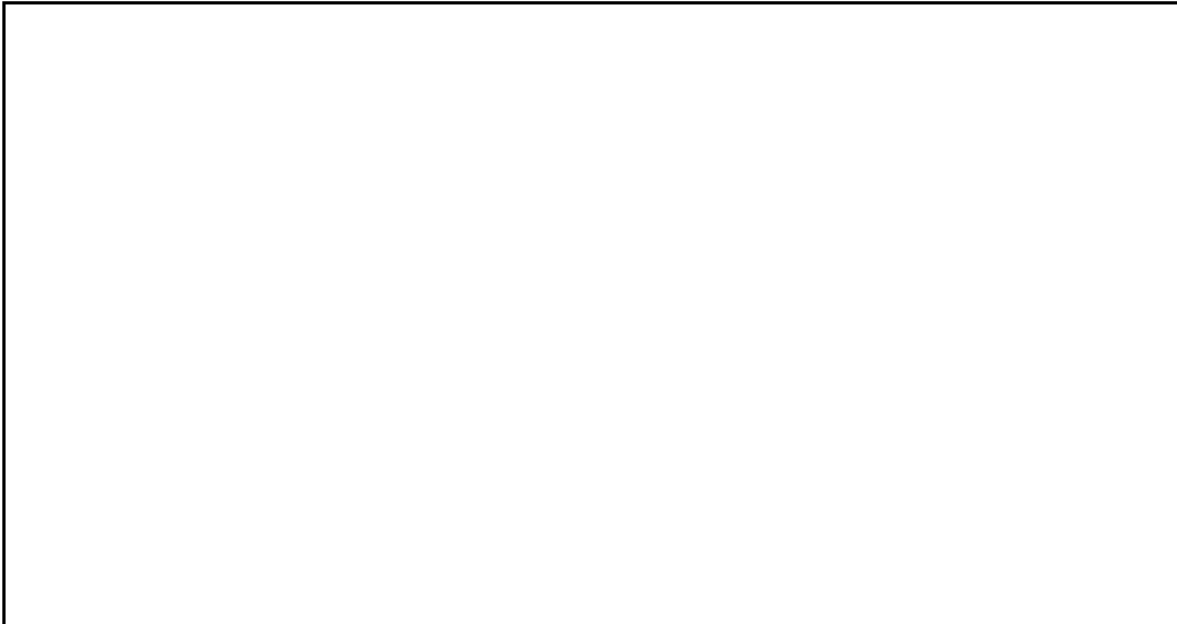
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YUGOSLAVIA: Tito's drive to remake the party into a more forceful proponent of federal goals is experiencing delays. Belgrade announced on Thursday that a presidium meeting, which was scheduled to discuss the ideological basis for the reform, has been postponed until 28 July--eight days later than planned. No reason for the delay was given, but there are many potentially divisive and still unsolved issues in the reform. Chief among these are the future relationship between regional and federal party bosses and Croatian opposition to Tito's plans. This opposition has already produced sharp differences between some Croat party leaders, who espouse a mass popular-based party, and Tito, who demands that the party become an elite vanguard. Tito has warned that he is ready to purge the party to obtain his ends.



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CANADA: Foreign ownership of brokerage firms located in Ontario will be restricted by legislation introduced into the provincial Parliament. The bill, which limits ownership to 25 percent for a foreign group and ten percent for a foreign individual, will affect firms dealing in the important Toronto stock exchange. This same formula is already being used to regulate foreign control of loan and publishing companies in the province. The legislation is another manifestation of Premier William Davies' continuing effort to reduce the pervasive influence of foreign, particularly US, investment in the province. Ontario, because of its relative prosperity, is more sensitive about foreign investment than Quebec and the Maritime provinces.

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SOMALIA: The government has finally announced it will release the five US commercial ships that have been detained at Mogadiscio since 12 June. No formal charges have been pressed against the owners or crew, and the ships will be released upon payment of \$11,200, possibly this weekend. Although this incident was resolved without serious consequences for US-Somali relations, the military regime again exhibited its anti-US sentiment. In a note to the US Embassy, the government stated that any further violations of Somalia's territorial sea by US privately owned or registered ships "will be the sole responsibility of the US Government."

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